

Message Text

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PAGE 01 BERN 02563 210754Z

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SUBJECT: SWITZERLAND AND THE INTERNATIONAL FINANCIAL SITUATION -

MINI-SNAKE; NUMBERED ACCOUNTS; HIGH VALUE OF THE SWISS

FRANC

REF: A) EC BRUSSELS 5471; B) BERN 2049; C) BERN 1645

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PAGE 02 BERN 02563 210754Z

1. SUMMARY. APPARENT FRENCH EFFORT TO SEEK CHANGES IN

SWISS BANKING PRINCIPLES IN CONNECTION WITH POSSIBLE ASSOCIATION OF SWISS FRANC (SF) TO EUROPEAN JOINT FLOAT WOULD APPEAR FROM OUR PERSPECTIVE VIRTUALLY TO RULE OUT WHAT ALWAYS HAS SEEMED ONLY MILD INTEREST IN SWITZERLAND IN ASSOCIATION WITH MINI-SNAKE. WHILE TECHNICAL ASPECTS HAD BEEN SOLVED AND SWISS NATIONAL BANK (SNB) AND OTHERS WERE ATTRACTED BY POTENTIALLY MORE STABLE EXCHANGE RATES WITH PRINCIPAL TRADING PARTNERS, MOST SWISS OFFICIALS, BANKERS, AND MANY BUSINESSMEN ARE CONVINCED THAT BEING PART OF SNAKE WOULD PRESENT BOTH POLITICAL AND ECONOMIC PROBLEMS. PROBLEMS WHICH CAPITAL INFLOWS BRING THRU INFLATED VALUE OF CURRENCY AS WELL AS IMAGE PROBLEMS FOR COUNTRY RELATED TO BANK SECRECY ARE MATTERS OF INCREASING CONCERN. SNB HAS APPARENTLY BROACHED POSSIBLE PHASE OUT OF NUMBERED ACCOUNTS WITH MAJOR BANKS. LATTER WERE APPARENTLY SURPRISED BY SNB INITIATIVE AND WILL OPPOSE ANY SUCH CHANGE, PARTICULARLY IF RELATED IN ANY WAY TO JOINING SNAKE OR OTHER STEP THEY REGARD OF QUESTIONABLE VALUE. END SUMMARY.

2. OUR CONTACTS OVER PAST FEW DAYS WITH KNOWLEDGEABLE OFFICIALS, BANKERS, AND JOURNALISTS INDICATE THAT GENERAL OUTLINES OF FRENCH OPPOSITION TO SF ASSOCIATION WITH MINI-SNAKE ARE KNOWN. FRENCH FINANCE MINISTER FOURCADE USED TAX EVASION AND BANK SECRECY ARGUMENTS PREVIOUSLY (REFTEL C). MOST SWISS SEEM TO REGARD FRENCH POSITION AS REITERATION OF LONG-HELD VIEW RE SWISS PRACTICES AND THUS AS PLOY TO DELAY OR OPPOSE SF ENTRY INTO SNAKE. THUS WE GATHER THAT FRENCH INTRODUCTION OF THESE CONTROVERSIAL AND LARGELY IRRELEVANT QUESTIONS MAY WELL BE FINAL STRAW TO KILL WHAT HAS NEVER SEEMED MORE THAN SPOTTY AND RATHER LUKE-WARM SWISS INTEREST IN SNAKE ENTRY AT THIS TIME.

3. EVEN NATIONAL BANK HAS CONDITIONED ITS SUPPORT FOR SF ASSOCIATION ON BASIS UNCHANGED TERMS AND CONDITIONS (REFTEL B). AGREED TECHNICAL MODIFICATIONS OF SNAKE OPERATIONS IN CONNECTION FRENCH FRANC RE-ENTRY MAY NOT HAVE POSED DIFFICULTIES BUT WE KNOW THAT SWISS ARE TROUBLED BY APPARENT FRENCH AND COMMISSION PREFERENCE THAT BASIC DECISIONS BE MADE BY EC SNAKE MEMBERS WITH LITTLE APPARENT PARTICIPATION BY PRESENT (OR PRESUMABLY FUTURE) LIMITED OFFICIAL USE

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PAGE 03 BERN 02563 210754Z

ASSOCIATES. (EC BRUSSELS 4723.) MANY ARE ALSO STILL CONVINCED THAT PRESENT RANGE OF MARKET RATES FOR SF VIS-A-VIS DM AND OTHER SNAKE CURRENCIES IS EXCESSIVELY HIGH DUE TO CAPITAL FLOWS AND WILL COME DOWN OVER TIME. FINALLY, WHILE SWITZERLAND CONDUCTS MUCH OF ITS ECONOMIC RELATIONS WITH SNAKE COUNTRIES, IT ALSO HAS CONSIDERABLY WIDER INTERESTS AS WELL. MOST SWISS WOULD LIKE TO SEE MORE STABLE RATES BUT ALSO GENERALLY ACCEPT FACT THAT

OBJECTIVE CONDITIONS MAY NOT YET EXIST; IF SF PARTICIPATION IN SNAKE WOULD CONTRIBUTE TO THIS ULTIMATE GOAL AND IF IT COULD BE DONE WITHOUT MAJOR POLITICAL AND ECONOMIC CHANGES SWISS INTEREST IN ASSOCIATION MIGHT WELL BE REKINDLED BUT WE DOUBT THIS WILL OCCUR SOON.

4. SHARP APPRECIATION OF SF AGAINST VIRTUALLY ALL OTHER CURRENCIES HAS OCCURRED PRIMARILY BECAUSE OF CAPITAL MOVEMENTS AND SWISS MEASURES TO TRY TO DEAL WITH SITUATION HAVE BEEN ALMOST ENTIRELY FOCUSED ON CAPITAL FLOWS AND FOREIGN EXCHANGE MARKET. REASONS FOR FLOWS HAVE INCLUDED DEVELOPMENTS ELSEWHERE; ECONOMIC/POLITICAL STABILITY OF SWITZERLAND; RANGE OF FINANCIAL POSSIBILITIES OFFERED; AND STRICT BANK SECRECY PROVISIONS, PROBABLY IN ROUGHLY THAT ORDER OF RELATIVE IMPORTANCE. WITH REGARD TO LAST POINT, SOME SWISS HAVE BEGUN TO ASK WHETHER SECRECY DOES NOT ALSO CAUSE PROBLEMS IN TERMS OF IMAGE, PRESTIGE, AND FOREIGN RELATIONS WHICH MAY EXCEED BENEFITS IT HAS BROUGHT SINCE BEING FIRMLY CODIFIED INTO LAW FORTY YEARS AGO. WE ASSUME, HOWEVER, THAT MAJOR SWISS BANKS WILL MAKE EVERY EFFORT RESIST MAJOR CHANGES IN BANK SECRECY PROVISIONS. THEY GAVE SUCH A FIRM REACTION JUNE 19 TO REPORTED RECENT SNB SUGGESTIONS THAT CONSIDERATION BE GIVEN TO PHASING OUT OF NUMBERED ACCOUNTS. (NUMBERED ACCOUNTS ONLY RESTRICT NUMBER OF BANK EMPLOYEES KNOWING IDENTITY OF ACCOUNT HOLDER; THEY DO NOT ADD FURTHER TO SECRECY PROTECTION SINCE ALL TYPES OF ACCOUNTS IN SWITZERLAND ARE EQUALLY SUBJECT TO BANK SECRECY.)

5. MOST SWISS WILL ACKNOWLEDGE THAT UNDULY HIGH SF VALUE IS BASICALLY A SWISS PROBLEM ALTHOUGH THEY THINK THAT OTHERS ARE ALSO NECESSARILY AFFECTED BY SHARP, SHORT-TERM RATE MOVEMENTS. BESIDES LOOSENING OF MONETARY LIMITED OFFICIAL USE

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PAGE 04 BERN 02563 210754Z

POLICY, REQUIREMENTS THAT BANKS BALANCE THEIR POSITIONS IN EACH CURRENCY DAILY, INCREASED FOREIGN ACCESS TO SWISS CAPITAL MARKET, ETC., SNB HAS ALSO SHOWN GREATER INCLINATION ENGAGE IN INTERVENTION OPERATIONS ALTHOUGH WE DOUBT MARKET BELIEVES THAT SNB PREPARED TO INTERVENE "MASSIVELY" TO PREVENT SF FROM APPRECIATING AGAINST DOLLAR. MOST SWISS EXPORTERS NO LONGER SPEAK OF SF/\$ RATE OF 2.80 OR 3.00, ALTHOUGH HIGH SNB OFFICIAL RECENTLY TOLD EMBOFF THAT SF/\$ RATE IN RANGE OF 2.60 WAS DESIRED RATHER THAN PRESENT 2.50 RATE. WE DOUBT VERY MUCH THAT MARKET BELIEVES THAT SNB WOULD, IN FACT, ATTEMPT MOVE RATE IN ANY SUBSTANTIAL WAY.

6. WHILE REASSURING STATEMENTS HAVE RECENTLY BEEN MADE

BY GOS AND SNB OFFICIALS THAT BOTTOM OF PRESENT RECESSION IS IN SIGHT, GENERAL EXPECTATION IS THAT UPSWING WILL BE GRADUAL AND SLOW AND THAT CYCLE IS PERHAPS 6 MONTHS BEHIND US AND GERMANY. DIRECTOR OF DIVISION OF COMMERCE (JOLLES) TOLD EMBOFF JUNE 20 THAT PRESSURES FROM EXPORTERS AND OTHER DIRECTLY AFFECTED BY COMBINATION OF CURRENCY APPRECIATION AND WORLDWIDE RECESSION FOR SOME MORE FORCEFUL ACTIONS HAVE LESSENED SOMEWHAT. JOLLES POINTED OUT THAT BOTH FINANCE AND ECONOMIC MINISTERS (CHEVELLAZ AND BRUGGER), SNB OFFICIALS, AND PARTICULARLY THE INDUSTRY ASSOCIATION (VORORT) AND THE LABOR UNIONS SHARE FIRM VIEW THAT THE RECESSION WILL RUN ITS COURSE WITHOUT THE NEED FOR FURTHER MAJOR GOVERNMENT ACTIONS, PARTICULARLY ANY AFFECTING EXPORTS OR IMPORTS.

7. ANOTHER IMPORTANT CONSIDERATION ARGUING AGAINST TRADE MEASURES IS STRONG SWISS BALANCE OF PAYMENTS POSITION. WE UNDERSTAND FROM SNB SOURCE THAT SIWSS EXPECT 1975 CURRENT ACCOUNT SURPLUS OF SF 3 BILLION, COMPARED WITH NORMAL SF 1 BILLION OR LESS, WHICH WILL RESULT FROM SHRINKING OF TRADE DEFICIT AS IMPORTS SLUMP MORE THAN EXPORTS AND FROM INCREASED INVESTMENT INCOME.

8. SWISS BANKERS ALSO SEEM TO BELIEVE THAT ABSENT MAJOR CHANGES IN PRESENT WORLD POLITICAL/ECONOMIC SITUATION
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CHANCES OF FURTHER MAJOR SF APPRECIATION AGAINST DOLLAR ARE NOT GREAT. ON OTHER HAND THEY DO NOT EXPECT WEAKENING OF SF UNTIL US INTEREST RATES BEGIN TO RISE, A DEVELOPMENT THEY ANTICIPATE MAY NOT OCCUR IN NEAR TERM.
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